

## Economic impact becoming clear - action is needed to stabilize our economy

Written by Mike Honda  
Wednesday, 01 October 2008 19:00

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In the days since the defeat of the [Economic Emergency Stabilization Act](#) we have seen severe economic impacts both on Wall Street and on main street.

The consequences of the vote - a historic drop in the stock market and the loss of \$1.2 trillion in savings, investments, and retirement funds - had a major impact on American families and [sm all businesses](#)

. Leaders from many [Silicon Valley companies](#) have contacted me to urge quick congressional action.

As the San Jose Mercury News reported, the state of California faces severe dangerous consequences from the economic instability. In order to pay their obligations, state governments borrow and pay off loans in the financial markets.

“California Treasurer Bill Lockyer warned Wednesday that the state could run out of money by the end of the month if the president and Congress cannot quickly agree on a federal bailout to rescue the ailing economy.

Lockyer's announcement underscored spreading anxiety among state and local officials as the market meltdown has frozen credit they rely on to borrow money, ruined financial giants and roiled investments.

Locally, the cratering economy is already projected to cost Peninsula schools invested in a failed Wall Street titan millions of dollars, is holding up San Jose redevelopment bonds and threatens to increase city and county borrowing costs while lowering interest earnings.

For the state, the most immediate concern is its inability to sell short-term borrowing notes needed to maintain cash flow in light of this year's historically late budget approval.

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'That means the state's cash reserves would be exhausted near the end of October,' Lockyer said. 'Payments for teachers' salaries, nursing homes, law enforcement and every other state-funded service would stop or be significantly delayed.'"

[Governor Schwarzenegger](#) wrote a letter to the California Congressional Delegation urging them to support the Emergency Economic Stabilization Act, stating that he believes it is essential to the well-being of every community in the state.

The House will be voting soon on a [new bill](#) to prevent our nation from spiraling into a worse economic crisis. This bill is better than the previous one, but still imperfect. As several of you have noted in your comments, an effective plan should prevent further foreclosures and keep families in their homes. If people stay in their homes, the housing market will stabilize and banks will regain confidence, allowing for the business and personal loans to become more readily accessible. Auto industry jobs and many other industries will be saved.

I am working with Congressional Leadership to include several elements in tomorrow's bill:

- **bankruptcy laws** , allowing bankruptcy judges to modify unsound, unsustainable home mortgages.
- **mortgage ownership** , reinstituting a federal program similar to FDR's Home Owners' Loan Corporation that bought mortgages from lenders in return for government-guaranteed bonds that paid interest.
- **securities transfer tax** which would help fund the bail out. This tax would have a negligible impact on the average investor, and provides a disincentive to short-term traders. This would tax the sale and purchase of stock and more exotic transactions such as credit default swaps, options, and futures. A quarter percent (0.25%) tax on financial transactions could raise approximately \$150 billion a year.

I appreciate the thoughtful comments that so many of you have submitted. Please continue to inform me of your views as our country works through these difficult times.